

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of East China	County St. Clair
Fiscal Year End December 31, 2006	Opinion Date June 11, 2007	Date Audit Report Submitted to State June 19, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

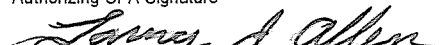
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Control	
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC		Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue		City Port Huron	State MI
		Zip 48060	
Authorizing CPA Signature 		Printed Name Larry J. Allen	
		License Number 1101008117	

CHARTER TOWNSHIP OF EAST CHINA, MICHIGAN

**ANNUAL FINANCIAL STATEMENTS
with Supplementary Information**

**FOR THE YEAR ENDED
DECEMBER 31, 2006**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CHARTER TOWNSHIP OF EAST CHINA, MICHIGAN

TABLE OF CONTENTS DECEMBER 31, 2006

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Net Assets – Proprietary Funds	15
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	17
Statement of Cash Flows – Proprietary Funds	18
Statement of Fiduciary Net Assets – Fiduciary Funds	19
Combining Statement of Net Assets - Discretely Presented Component Units	20
Combining Statement of Activities - Discretely Presented Component Units	21
Notes to the Basic Financial Statements	23
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual General Fund	41
Township Improvement Fund	42

CHARTER TOWNSHIP OF EAST CHINA, MICHIGAN

TABLE OF CONTENTS DECEMBER 31, 2006

	<u>Page Number</u>
Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Nonmajor Governmental Funds –	
Combining Balance Sheet	43
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	44
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Building Inspection Fund	45
Fiduciary Funds:	
Current Tax Fund –	
Statement of Changes in Assets and Liabilities	46

INDEPENDENT AUDITOR'S REPORT

To the Supervisor and Members
of the Township Board
Charter Township of East China
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the remaining fund information of the Charter Township of East China, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of East China's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of East China, Michigan, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2007 on our consideration of the Charter Township of East China's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of those testings, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, and schedules of budgetary comparisons on pages 42 and 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of East China's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

June 11, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS

The Charter Township of East China's 2006 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and component unit information. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Township's net assets and how they have changed. Net assets, defined as the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

The government-wide financial statements of the Township are divided into two categories:

Governmental activities – most of the Township's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, state-shared revenue, and charges for services, provide most of the funding.

Business-type activities – the Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer operations are treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds, not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Township Board establishes other funds to control and manage money for particular purposes.

The Township has four kinds of funds:

Governmental Funds - Most of the Township's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

Proprietary Funds – are used to report services for which the Township charges customers a fee for those services. The Township has two enterprise funds, the Water and Sewer Funds.

Internal Service Funds – report activities that provide services and supplies to other Township programs. The Township utilizes a Department of Public Works internal service fund.

Fiduciary Funds – The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The Township has combined total net assets of \$15,306,369. This is an increase of \$323,941 over 2005. Government-type activities comprise \$4,618,763, and business-type activities make up \$10,687,606 of the total net assets. In a condensed format, the table below shows net assets as of the December 31, 2006 and 2005.

In Thousands

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Assets				
Current assets	\$ 3,820	\$ 3,738	\$ 1,609	\$ 1,453
Restricted assets	-	-	333	332
Noncurrent assets	<u>2,864</u>	<u>2,679</u>	<u>13,596</u>	<u>13,578</u>
Total assets	<u>6,684</u>	<u>6,417</u>	<u>15,538</u>	<u>15,363</u>
Liabilities				
Current liabilities	1,941	1,667	230	143
Liabilities payable from Restricted assets	-	-	577	579
Long-term liabilities	<u>124</u>	<u>110</u>	<u>4,043</u>	<u>4,299</u>
Total liabilities	<u>2,065</u>	<u>1,777</u>	<u>4,850</u>	<u>5,021</u>
Net Assets				
Invested in capital assets – Net of related debt	2,776	2,679	9,189	9,010
Restricted	701	628	11	2
Unrestricted	<u>1,142</u>	<u>1,333</u>	<u>1,488</u>	<u>1,330</u>
Total net assets	<u>\$ 4,619</u>	<u>\$ 4,640</u>	<u>\$ 10,688</u>	<u>\$ 10,342</u>

The Township governmental activities experienced a net change in assets of (\$21,669). The main reason for the change is that the internal service fund used by management to charge costs of the Township's department of public works activities experienced expenses in excess of revenues of \$46,188.

The following table shows the changes in net assets for 2006 and 2005.

In Thousands

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Revenue				
Program revenue:				
Charges for services	\$ 144	\$ 133	\$ 1,462	\$ 1,400
Operating grants and contributions	3	3	-	-
Capital grants and contributions	-	-	1	-
General revenue:				
Property taxes	1,466	1,439	329	320
Unrestricted grants	283	261	-	-
Unrestricted investment earnings	245	82	10	26
Transfers	(211)	(171)	374	180
Total Revenue	<u>1,930</u>	<u>1,747</u>	<u>2,176</u>	<u>1,926</u>
Program Expenses				
General government	872	546	-	-
Public safety	408	402	-	-
Public works	476	442	-	-
Recreation and cultural	168	257	-	-
Other activities	28	51	-	-
Interest on Debt	-	3	-	-
Water and sewer	-	-	1,830	1,747
Total Program Expenses	<u>1,952</u>	<u>1,701</u>	<u>1,830</u>	<u>1,747</u>
Changes in net assets	<u><u>\$ (22)</u></u>	<u><u>\$ 46</u></u>	<u><u>\$ 346</u></u>	<u><u>\$ 179</u></u>

Governmental Activities

Revenues for governmental activities totaled \$2,140,855 in 2006. Of this amount, \$1,466,220 was received from taxes, which was an increase of \$27,454 from the prior year. The next largest revenue sources was Federal/State/Local revenue \$283,240, an increase of \$19,060 from 2005.

Business-type Activities

The Township has two business-type activities, the water and sewer operations. Total revenues including interest income and transfers was \$2,175,684 and expenses were \$1,830,074 for a change in net assets of \$345,610. This included a transfer in from the governmental fund and component units of \$210,408 and \$163,932, respectively.

FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS

Governmental Fund

The General Fund ended 2006 with a fund balance of \$495,597, of which \$87,044 was reserved for prepaid expenditures, \$61,125 designated for tax appeal, and the remaining balance of \$347,428 unreserved/undesignated. The general fund balance decreased \$30,300 from the prior year mainly as a result of an increase revenue in 2006 of \$72,012 and an increase of General Government expenditures in 2006 of \$174,054, with the majority of the expenditure increase being litigation fees of \$182,000. The Townships other major governmental funds had the following revenues over (under) expenditures as follows:

- Township Improvement Fund had expenditures in excess of revenues of \$112,049 due to \$113,110 of expenditures for park commission capital outlay incurred in this fund during the year.
- Capital Projects Fund had revenues in excess of expenditures of \$71,798 due to property tax collections of \$327,295 with only \$131,202 of capital outlay relating to road maintenance and bikepath improvement fees of \$88,200 and \$22,725, respectively. In addition, \$160,009 was transferred to the Water Fund for new water lines.

The General Fund budget was amended throughout the year as deemed necessary, primarily to prevent over expenditure. The most significant amendment was to Other Expenditures to increase the budget by \$150,000 for addition costs for the legal defense for the DTE litigation.

Business-type Activities

As indicated earlier the Township only has two business-type activities, the water and sewer operations. Total revenues amounted to \$2,175,684 for 2006 and expenses were \$1,830,074 for an increase in net assets of \$345,610. This increase is a result of increased water and sewer user charges of \$61,407 with an additional increase from \$194,288 transfers in from governmental funds and component units.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township had \$16,281,885 invested in capital assets for its government and business-type activities (net of accumulated depreciation) as of December 31, 2006. The investment in capital assets includes land, land improvements, buildings and improvements, machinery and equipment, and water and sewer lines. During the year the Township added \$612,253 of capital assets, \$273,523 in the government activities and \$338,730 in the business-type activities.

Of the business-type activities, \$175,044 was for equipment upgrades, with the remaining \$163,685 for construction of water and sewer lines.

Of the governmental activities, \$131,290 was for park improvements, \$31,132 was for bike path improvements with the remaining \$111,101 for various vehicle equipment purchases.

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Land	\$ 124,442	\$ 124,442	\$ 72,530	\$ 72,530
Land improvements	2,540,120	2,517,688	-	-
Building and improvements	1,103,621	963,631	7,992,885	7,992,885
Equipment	716,639	631,108	861,205	699,891
Water and sewer	-	-	12,155,248	12,141,517
Construction in progress	-	-	163,685	-
	4,484,822	4,236,869	21,245,553	20,906,823
Accumulated depreciation	(1,708,999)	(1,557,534)	(7,739,491)	(7,329,085)
	<u>\$ 2,775,823</u>	<u>\$ 2,679,335</u>	<u>\$ 13,506,062</u>	<u>\$ 13,577,738</u>

Additional information on the Township's capital assets can be found in Note 8 to the financial statements.

Long-Term Debt

At December 31, 2006 the Township's had \$4,424,658 in long-term debt compared to \$4,660,716 at December 31, 2005, a decrease of \$236,058 from the prior year. The following table shows the long-term debt at December 31, 2006 and 2005:

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Environmental Quality				
Bond Contract Payable	\$ -	\$ -	\$ 4,290,016	4,541,172
Compensated Absences	123,723	110,119	10,919	9,425
	<u>\$ 123,723</u>	<u>\$ 110,119</u>	<u>\$ 4,300,935</u>	<u>\$ 4,550,597</u>

ECONOMIC FACTORS AND NEXT YEARS BUDGET

For 2007, the Township Board adopted a general fund budget with estimated revenues of \$1,553,790 and expenditures of \$1,524,611. This is approximately a 4% increase in revenues and 7% decrease in expenditures from the 2006 budget and will result in an increase of \$29,179 in fund balance. Although local municipalities in the State of Michigan have seen State Shared Revenues decrease significantly during the past few years, the 2007 budget does not anticipate any significant cuts. The decrease in expenditures is expected to be basically stable with no anticipated major decreases per function.

During the first part of 2007, the Township Board increased water rates by approximately 3% and sewer rates remained the same. One of the major projects for the summer is the painting of the interior of one of the water towers and replacement of the Recor lift station.

CONTACTING THE TOWNSHIP

This financial report is designed to provide a general overview of the Township's finances to our residents and other interested parties in understanding the Township's financial condition. If you have questions about this report or need additional financial information, please contact the Township at (810) 765-8879.

BASIC FINANCIAL STATEMENTS

CHARTER TOWNSHIP OF EAST CHINA

St. Clair County, Michigan

STATEMENT OF NET ASSETS DECEMBER 31, 2006

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 250,953	\$ 12,037	\$ 262,990	\$ 31,198
Investments	1,822,892	1,232,480	3,055,372	621,324
Receivables	1,638,028	296,612	1,934,640	57,860
Due from primary government	-	-	-	105,474
Deposit with authority	-	32,900	32,900	-
Inventory	-	14,684	14,684	-
Prepaid expenses	107,915	19,541	127,456	28,769
Restricted Assets -				
Cash and cash equivalents	-	887	887	-
Receivables	-	55,420	55,420	-
Investments	-	10,151	10,151	-
Taxes receivable	-	266,893	266,893	-
Other Assets -				
Advance to component unit	-	90,318	90,318	-
Shared street improvements	88,200	-	88,200	-
Capital Assets (net of accumulated depreciation)-				
Assets not being depreciated	124,442	236,215	360,657	-
Assets being depreciated	2,651,381	13,269,847	15,921,228	-
Total Assets	<u>6,683,811</u>	<u>15,537,985</u>	<u>22,221,796</u>	<u>844,625</u>
LIABILITIES:				
Payables and accrued liabilities	436,096	7,821	443,917	64,830
Accrued interest	-	2,949	2,949	-
Advances and deposits	3,662	87,023	90,685	56,000
Deferred revenue	1,501,567	-	1,501,567	30,045
Bond payable (current)	-	27,152	27,152	-
Due to component unit	-	105,474	105,474	-
Liabilities Payable From Restricted Assets-				
Bonds payable (current)	-	230,792	230,792	-
Deferred revenue	-	322,313	322,313	-
Accrued interest	-	23,864	23,864	-
Non-Current liabilities-				
Due in more than one year				
Contracts payable	-	4,032,072	4,032,072	-
Advance from primary government	-	-	-	90,318
Accrued vacation and sick leave	123,723	10,919	134,642	73,259
Total Liabilities	<u>2,065,048</u>	<u>4,850,379</u>	<u>6,915,427</u>	<u>314,452</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	2,775,823	9,189,233	11,965,056	-
Restricted-				
Debt retirement	-	11,038	11,038	-
Cemetery perpetual care				
Nonexpendable	45,770	-	45,770	-
Capital projects	654,769	-	654,769	-
Unrestricted	1,142,401	1,487,335	2,629,736	530,173
Total Net Assets	<u>\$ 4,618,763</u>	<u>\$ 10,687,606</u>	<u>\$ 15,306,369</u>	<u>\$ 530,173</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 871,670	\$ 61,996	\$ -	\$ -
Public Safety	408,273	76,242	1,754	-
Public Works	476,348	625	714	-
Recreation and Culture	168,046	4,667	-	-
Other Activities	27,779	-	-	-
Total governmental activities	<u>1,952,116</u>	<u>143,530</u>	<u>2,468</u>	<u>-</u>
Business type activities				
Water Fund	972,085	778,363	-	734
Sewer Fund	<u>857,989</u>	<u>683,168</u>	<u>-</u>	<u>-</u>
	<u>1,830,074</u>	<u>1,461,531</u>	<u>-</u>	<u>734</u>
Total Primary Government	<u><u>3,782,190</u></u>	<u><u>1,605,061</u></u>	<u><u>2,468</u></u>	<u><u>734</u></u>
Component Units				
Sewer/Water Authority	1,139,182	1,139,182	-	93,000
Brownfield Development Authority	<u>121,481</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Component Units	<u><u>1,260,663</u></u>	<u><u>1,139,182</u></u>	<u><u>-</u></u>	<u><u>93,000</u></u>

General revenues:
Property taxes
Grants and contribution not -
restricted to specific programs
Unrestricted investment income
Transfers
Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government			
Governmental Activities	Business Type Activities	Total	Component Units
\$(809,674)	\$ -	\$(809,674)	\$ -
(330,277)	-	(330,277)	-
(475,009)	-	(475,009)	-
(163,379)	-	(163,379)	-
(27,779)	-	(27,779)	-
<u>(1,806,118)</u>	<u>-</u>	<u>(1,806,118)</u>	<u>-</u>
-	(192,988)	(192,988)	-
<u>-</u>	<u>(174,821)</u>	<u>(174,821)</u>	<u>-</u>
<u>-</u>	<u>(367,809)</u>	<u>(367,809)</u>	<u>-</u>
<u>(1,806,118)</u>	<u>(367,809)</u>	<u>(2,173,927)</u>	<u>-</u>
-	-	-	93,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>(121,481)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,481)</u>
1,466,220	329,484	1,795,704	113,707
283,240	-	283,240	-
245,397	9,595	254,992	29,829
<u>(210,408)</u>	<u>374,340</u>	<u>163,932</u>	<u>(163,932)</u>
<u>1,784,449</u>	<u>713,419</u>	<u>2,497,868</u>	<u>(20,396)</u>
(21,669)	345,610	323,941	(48,877)
<u>4,640,432</u>	<u>10,341,996</u>	<u>14,982,428</u>	<u>579,050</u>
<u>\$ 4,618,763</u>	<u>\$ 10,687,606</u>	<u>\$ 15,306,369</u>	<u>\$ 530,173</u>

CHARTER TOWNSHIP OF EAST CHINA

St. Clair County, Michigan

BALANCE SHEET GOVERNMENTAL FUNDS DECEMBER 31, 2006

	General	Township Improvement	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets:					
Cash and cash equivalents	\$ 42,958	\$ 102,549	\$ 102,646	\$ 2,800	\$ 250,953
Investments	357,357	591,360	771,338	102,837	1,822,892
Receivables -					
Property taxes	968,324	-	280,590	-	1,248,914
Interest and accounts	114,125	5,307	-	-	119,432
Special assessments	-	-	-	695	695
Due from other funds	212,230	-	56,757	-	268,987
Prepaid expenditures	87,044	-	11,256	-	98,300
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,782,038</u>	<u>699,216</u>	<u>1,222,587</u>	<u>\$ 106,332</u>	<u>\$ 3,810,173</u>
Liabilities:					
Accounts payable	\$ 112,965	23,199	230,471	\$ 2,524	\$ 369,159
Accrued liabilities	5,594	-	-	8,146	13,740
Advances and deposits	3,662	-	-	-	3,662
Due to employees	-	-	-	16,236	16,236
Due to other governmental units	-	-	-	17,050	17,050
Deferred revenue	1,164,220	-	337,347	-	1,501,567
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,286,441</u>	<u>23,199</u>	<u>567,818</u>	<u>43,956</u>	<u>1,921,414</u>
Fund Balances:					
Reserved -					
Prepays	87,044	-	11,256	-	98,300
Capital projects	-	-	373,358	-	373,358
Perpetual care	-	-	-	45,770	45,770
Unreserved -					
Designated -					
Tax appeal	61,125	60,000	270,155	-	391,280
Undesignated -					
General Fund	347,428	-	-	-	347,428
Special Revenue Funds	-	616,017	-	16,606	632,623
Total Equity	<u>495,597</u>	<u>676,017</u>	<u>654,769</u>	<u>62,376</u>	<u>1,888,759</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Equity	<u>\$ 1,782,038</u>	<u>\$ 699,216</u>	<u>\$ 1,222,587</u>	<u>\$ 106,332</u>	<u>\$ 3,810,173</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

Fund Balances - total governmental funds	\$ 1,888,759
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	3,831,683
Accumulated depreciation	(1,359,652)
Shared street improvements used in governmental activities are not financial resources and therefore are not reported in the funds.	
	88,200
Internal Service Fund used by management to charge cost of the Townships department of public works activities. The assets and liabilities of the internal service fund (department of public works) is included in governmental activities in the statement of net assets.	
	220,449
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Accrued vacation and sick payable	(50,676)
Net Assets of governmental activities	\$ 4,618,763

The notes to the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	General	Township Improvement	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 1,138,925	\$ -	\$ 327,295	\$ -	\$ 1,466,220
Licenses and permits	24,356	-	-	76,217	100,573
Intergovernmental -					
Federal/State	285,708	-	-	-	285,708
Charges for services	37,640	-	-	-	37,640
Interest and rent	48,009	36,760	38,207	4,125	127,101
Other	4,667	-	-	650	5,317
Total Revenues	<u>1,539,305</u>	<u>36,760</u>	<u>365,502</u>	<u>80,992</u>	<u>2,022,559</u>
Expenditures:					
General Government	723,358	116,809	-	-	840,167
Public Safety	329,068	-	-	79,205	408,273
Public Works	227,495	-	108,477	-	335,972
Recreation and Cultural	183,437	-	22,725	-	206,162
Other Activities	27,779	-	-	-	27,779
Total Expenditures	<u>1,491,137</u>	<u>116,809</u>	<u>131,202</u>	<u>79,205</u>	<u>1,818,353</u>
Excess of revenues over (under) expenditures	<u>48,168</u>	<u>(80,049)</u>	<u>234,300</u>	<u>1,787</u>	<u>204,206</u>
Other Financing Sources (Uses):					
Transfers from other funds	1,438	-	-	-	1,438
Transfer to component units	-	-	(2,493)	-	(2,493)
Transfers to other funds	(79,906)	(32,000)	(160,009)	(1,438)	(273,353)
Total Other Financing Sources (Uses)	<u>(78,468)</u>	<u>(32,000)</u>	<u>(162,502)</u>	<u>(1,438)</u>	<u>(274,408)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(30,300)</u>	<u>(112,049)</u>	<u>71,798</u>	<u>349</u>	<u>(70,202)</u>
Fund Balances at beginning of year	<u>525,897</u>	<u>788,066</u>	<u>582,971</u>	<u>62,027</u>	<u>1,958,961</u>
Fund Balances at end of year	<u>\$ 495,597</u>	<u>\$ 676,017</u>	<u>\$ 654,769</u>	<u>\$ 62,376</u>	<u>\$ 1,888,759</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2006**

Net change in fund balances - total governmental funds	\$ (70,202)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	162,422
Depreciation expense	(152,060)
Governmental funds report road improvement as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful live and reported as amortization expense.	
	88,200
Internal service fund used by management to charge costs of the Township's department of public works activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.	
	(46,188)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.	
Increase in accrued vacation and sick payable	(3,841)
Change in net assets of governmental activities	<u><u>\$ (21,669)</u></u>

The notes to the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 6,320	\$ 5,717	\$ 12,037	\$ -
Investments	314,135	918,345	1,232,480	-
Account receivable-				
Utility charges	151,864	123,940	275,804	-
Connections fees	-	681	681	-
Other	609	-	609	-
Interest receivable	-	3,518	3,518	-
Due from other governmental units	16,000	-	16,000	-
Deposit with authority	-	32,900	32,900	-
Inventory	14,684	-	14,684	-
Prepaid expenses	10,192	9,349	19,541	9,615
Total Current Assets	<u>513,804</u>	<u>1,094,450</u>	<u>1,608,254</u>	<u>9,615</u>
Restricted Assets:				
Cash and cash equivalents	887	-	887	-
Investments	10,151	-	10,151	-
Due from other funds	55,420	-	55,420	-
Taxes receivable	266,893	-	266,893	-
	<u>333,351</u>	<u>-</u>	<u>333,351</u>	<u>-</u>
Property, Plant and Equipment:				
Land	36,054	36,476	72,530	-
Buildings and improvement	566,710	7,426,175	7,992,885	122,297
Utility system	9,729,953	2,406,027	12,135,980	-
Machinery and equipment	238,993	641,480	880,473	530,841
Construction in progress	160,009	3,676	163,685	-
	<u>10,731,719</u>	<u>10,513,834</u>	<u>21,245,553</u>	<u>653,138</u>
Less - accumulated depreciation	<u>(2,943,231)</u>	<u>(4,796,260)</u>	<u>(7,739,491)</u>	<u>(349,346)</u>
	<u>7,788,488</u>	<u>5,717,574</u>	<u>13,506,062</u>	<u>303,792</u>
Other Assets:				
Advance to component unit	-	90,318	90,318	-
Advance to other funds	-	350,000	350,000	-
	<u>-</u>	<u>440,318</u>	<u>440,318</u>	<u>-</u>
Total Assets	<u>\$ 8,635,643</u>	<u>\$ 7,252,342</u>	<u>\$ 15,887,985</u>	<u>\$ 313,407</u>

The accompanying notes are an integral part of these financial statements.

	Business Type Activities-Enterprise Funds			Governmental Activities Internal Service Fund
	Water	Sewer	Total	
LIABILITIES:				
Current Liabilities:				
Accounts payable	\$ 1,348	\$ 5,025	\$ 6,373	\$ 1,205
Deposits payable	54,326	32,697	87,023	-
Accrued liabilities	504	944	1,448	2,659
Accrued interest	2,949	-	2,949	-
Due to other funds	-	-	-	16,047
Due to component unit	78,894	26,580	105,474	-
Contracts payable (current portion)	27,152	-	27,152	-
Total Current Liabilities	165,173	65,246	230,419	19,911
Current Liabilities - (Payable from restricted assets):				
Deferred revenue	322,313	-	322,313	-
Accrued interest	23,864	-	23,864	-
Contracts payable (current portion)	230,792	-	230,792	-
	576,969	-	576,969	-
Long-Term Liabilities (less current portions):				
Contracts payable	4,032,072	-	4,032,072	-
Advance from other funds	350,000	-	350,000	-
Accrued vacation and sick pay	5,460	5,459	10,919	73,047
Total Long-Term Liabilities	4,387,532	5,459	4,392,991	73,047
Total Liabilities	5,129,674	70,705	5,200,379	92,958
NET ASSETS:				
Investment in capital assets, net of related liabilities	3,471,659	5,717,574	9,189,233	303,792
Reserved -				
Debt retirement	11,038	-	11,038	-
Unrestricted	23,272	1,464,063	1,487,335	(83,343)
Total Net Assets	\$ 3,505,969	\$ 7,181,637	\$ 10,687,606	\$ 220,449

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 678,429	\$ 621,685	\$ 1,300,114	\$ 69,179
Penalty charges	10,092	46,012	56,104	-
Equipment rentals	84,600	-	84,600	46,782
Other	5,242	15,471	20,713	1,389
Total Operating Revenues	<u>778,363</u>	<u>683,168</u>	<u>1,461,531</u>	<u>117,350</u>
Operating Expenses:				
Personnel services	39,406	77,193	116,599	150,479
Water/Sewer Authority charges	564,519	508,164	1,072,683	-
Supplies	33,772	10,107	43,879	26,695
Other services and charges	8,083	25,561	33,644	7,114
Insurance	-	5,328	5,328	14,173
Repairs and maintenance	893	9,506	10,399	3,165
Equipment rental	5,398	21,688	27,086	-
Depreciation	210,284	200,122	410,406	24,975
Other	910	320	1,230	1,883
Total Operating Expenses	<u>863,265</u>	<u>857,989</u>	<u>1,721,254</u>	<u>228,484</u>
Operating Loss	<u>(84,902)</u>	<u>(174,821)</u>	<u>(259,723)</u>	<u>(111,134)</u>
Non-Operating Revenues (Expenses):				
Property taxes	329,484	-	329,484	-
Contribution of capital assets	734	-	734	-
Interest on bonds	(108,820)	-	(108,820)	-
Interest earned	9,595	-	9,595	946
Total Non-Operating Revenues (Expenses)	<u>230,993</u>	<u>-</u>	<u>230,993</u>	<u>946</u>
Net Income (Loss) before transfers	<u>146,091</u>	<u>(174,821)</u>	<u>(28,730)</u>	<u>(110,188)</u>
Transfers In:				
Transfer from General Fund	39,286	-	39,286	32,000
Transfer from Sewer and Water Authority	13,731	161,314	175,045	-
Transfer from Capital Projects Fund	160,009	-	160,009	-
Transfer from Township Improvement	-	-	-	32,000
	<u>213,026</u>	<u>161,314</u>	<u>374,340</u>	<u>64,000</u>
Net Income (Loss)	<u>359,117</u>	<u>(13,507)</u>	<u>345,610</u>	<u>(46,188)</u>
Net assets at beginning of year	<u>3,146,852</u>	<u>7,195,144</u>	<u>10,341,996</u>	<u>266,637</u>
Net Assets end of year	<u>\$ 3,505,969</u>	<u>\$ 7,181,637</u>	<u>\$ 10,687,606</u>	<u>\$ 220,449</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Cash Flows From Operating Activities:				
Receipts from customers	\$ 666,032	\$ 668,143	\$ 1,334,175	\$ 70,868
Payment to suppliers	(567,525)	(558,760)	(1,126,285)	(120,583)
Payment to employees	(38,613)	(76,836)	(115,449)	(66,527)
Payment for other funds for services	84,600	-	84,600	62,829
Net cash provided (used) by operating activities	144,494	32,547	177,041	(53,413)
Cash Flows From Noncapital Financing Activities:				
Due to/from other funds	(40,127)	(5,807)	(45,934)	-
Operating subsidies and other fund activities	213,026	161,314	374,340	64,000
Net cash provided by noncapital financing activities	172,899	155,507	328,406	64,000
Cash Flows From Capital and Related Financing Activities:				
Bond payments -				
Principal	(251,156)	-	(251,156)	-
Interest and fiscal charges	(110,389)	-	(110,389)	-
Acquisition/construction/disposal of capital assets	(173,006)	(164,990)	(337,996)	(111,098)
Property Taxes	333,264	-	333,264	-
Net cash used by capital and related financing activities	(201,287)	(164,990)	(366,277)	(111,098)
Cash Flows From Investing Activities:				
Interest earned	9,595	(375)	9,220	946
Sale of investments	(322,688)	(710,124)	(1,032,812)	97,365
Net cash provided (used) by investing activities	(313,093)	(710,499)	(1,023,592)	98,311
Net Increase (Decrease) in Cash and Cash Equivalents for the year	(196,987)	(687,435)	(884,422)	(2,200)
Cash and Cash Equivalents at Beginning of Year	204,194	693,152	897,346	2,200
Cash and Cash Equivalents at End of Year	\$ 7,207	\$ 5,717	\$ 12,924	\$ -
Reconciliation of Net Loss to Net Cash Provided (Used) by Operating Activities:				
Operating loss for the year	\$(84,902)	\$(174,821)	\$(259,723)	\$(111,134)
Adjustments to reconcile operating loss to net cash used by operating activities -				
Depreciation	210,284	200,122	410,406	24,975
Change in assets and liabilities:				
Receivables	(27,731)	(15,025)	(42,756)	300
Prepaid expenses	(5,199)	(4,738)	(9,937)	6,874
Inventory	(556)	-	(556)	-
Accounts payable/accrued liabilities	51,850	26,263	78,113	(238)
Due to other funds	-	-	-	16,047
Vacation and sick time	748	746	1,494	9,763
Net Cash Provided (Used) By Operating Activities	\$ 144,494	\$ 32,547	\$ 177,041	\$(53,413)

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2006

ASSETS:

Cash and cash equivalents	\$ 904,256
Accounts receivable	<u>24,010</u>
 Total Assets	 <u><u>\$ 928,266</u></u>

LIABILITIES:

Due to other governmental units	<u><u>\$ 928,266</u></u>
---------------------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA**St. Clair County, Michigan****COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2006**

	Sewer/Water Authority	Brownfield Redevelopment Authority	Totals
ASSETS			
Cash	\$ 9,318	\$ 21,880	\$ 31,198
Investments	621,324	-	621,324
Interest receivable	850	-	850
Receivables	-	30,045	30,045
Due from primary government	105,474	-	105,474
Due from Charter Township of China	26,965	-	26,965
Prepaid expenditures	28,769	-	28,769
	<u>792,700</u>	<u>51,925</u>	<u>844,625</u>
Total Assets			
	<u>792,700</u>	<u>51,925</u>	<u>844,625</u>
LIABILITIES			
Accounts payable	30,896	7,855	38,751
Accrued salaries and wages	11,255	-	11,255
Accrued payroll taxes	861	-	861
Accrued vacation	13,963	-	13,963
Deposits payable	56,000	-	56,000
Deferred revenue	-	30,045	30,045
Non-current liabilities			
Due in more than one year			
Advance from primary government	90,318	-	90,318
Accrued vacation and sick leave	73,259	-	73,259
	<u>276,552</u>	<u>37,900</u>	<u>314,452</u>
Total Liabilities			
	<u>276,552</u>	<u>37,900</u>	<u>314,452</u>
Net Assets:			
Unrestricted	<u>\$ 516,148</u>	<u>\$ 14,025</u>	<u>\$ 530,173</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Water/Sewer Authority				
Business Type Activities				
Water and Sewer	\$ 1,139,182	\$ 1,139,182	\$ -	\$ 93,000
Brownfield Redevelopment Authority				
Governmental Activities				
Public Works	121,481	-	-	-

General Revenues:
Property Taxes
Transfers In (Out)
Unrestricted investment income

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

<u>Sewer/Water Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
<u>\$ 93,000</u>	<u>\$ -</u>	<u>\$ 93,000</u>
<u>-</u>	<u>(121,481)</u>	<u>(121,481)</u>
-	113,707	113,707
(175,045)	11,113	(163,932)
<u>29,397</u>	<u>432</u>	<u>29,829</u>
<u>(145,648)</u>	<u>125,252</u>	<u>(20,396)</u>
(52,648)	3,771	(48,877)
<u>568,796</u>	<u>10,254</u>	<u>579,050</u>
<u><u>\$ 516,148</u></u>	<u><u>\$ 14,025</u></u>	<u><u>\$ 530,173</u></u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Charter Township of East China, Michigan, a Municipal Corporation, was organized as a Township on February 12, 1859, under provisions of the constitution and general law of the State of Michigan and became a Charter Law Township on November 6, 1979, under Public Act 359, the Charter Township Act. The Township is one of twenty-three Townships in St. Clair County and covers an area of approximately 5.7 square miles. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four (4) Trustees, and provides services to its more than 3,600 residents in many areas including law enforcement, fire protection, water, sewer, roads, parks and natural resources, and planning and economic development.

These financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Township.

DISCRETELY PRESENTED COMPONENT UNITS -

The St. Clair River Sewer and Water Authority - The Authority was established by the Charter Townships of China and East China for the purpose of operating and maintaining a sanitary sewage treatment plant and water filtration plant in accordance with Act 233 Public Acts of Michigan, 1955, as amended. The sewer facility commenced operations in July 1983 and the water facility began operations in July 2001.

The St. Clair River Sewer and Water Authority operates under a five (5) member Board of Commissioners appointed by the Charter Townships Boards, which establish policy and review operations.

The St. Clair River Sewer and Water Authority has contracted with the Charter Township of East China to perform the administration, operations and maintenance of the facility. The Authority charges the Charter Townships for sewer services and water services, and it is the Townships' responsibility to charge the individual users. The Sewer plant and systems are recorded in the respective Charter Townships' Sewer Funds based on ownership. The Charter Township of East China owns 71.52% of the sewer plant. The Water plant and systems are recorded in the respective Charter Townships' Water Funds based on ownership. The Charter Township of East China owns 67.88% of the Water plant.

Complete financial statements of the St. Clair River Sewer and Water Authority may be obtained from the Charter Township of East China at 5111 River Road, East China, MI 48054.

Brownfield Redevelopment Authority - The Authority was created to promote the revitalization of environmentally distressed areas. The Authority is under the supervision of the Board, with the eight to ten member Board appointed by the Supervisor and confirmed by the Township Board.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the non-fiduciary activities of the primary government and its component unit. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type-activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation -

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance (the December 2005 levy in 2006). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied and collected in December of each year, are budgeted and treated as revenue in the subsequent year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund – is the Township’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Township Improvement Fund – is a special revenue fund used to account for non-tax revenue set aside for statutory public improvements.

Capital Projects Fund – is used to account for financial resources to be used for the acquisition or construction of major capital projects (other than those financed by Proprietary Funds).

The Township reports the following major proprietary funds:

Water Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Sewer Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the Township reports the following fund types:

Special Revenue Fund – is used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Debt Service Fund – is used to account for accumulation of resources for and the payment of, general long-term debt principal, interest and related costs.

Agency Fund – is used to account for assets held by the Township as an agent for other governments and other funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Funds is charged to customers for sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The Township's cash and cash equivalents are considered to be cash on hand and demand deposits. The investment trust funds/mutual funds have the general characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as investments.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at the carrying amount which reasonably approximates fair value.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items.

Property Tax Calendar –

The Township's property tax is levied each December 1 on the taxable value of property located in the Township as if the proceeding December 31. Property taxes are recognized as revenues in the year they were intended to finance (the 2005 levy is recognized in 2006).

The Township also collects taxes for various other municipalities and school districts. The collection and remittance of these taxes are accounted for in the Tax Collection Fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. shared roads and bridge improvements, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Township has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to January 1, 2004.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>
Land improvements	10-25
Buildings and improvements	10-60
Utility systems	60
Machinery and equipment	3-25

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Compensated Absences –

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts.

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates –

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

The Township Supervisor prepares and submits the proposed operating budgets for the year commencing January 1. The budgets include proposed expenditures and resources to finance them.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

Prior to December 31, the proposed budget is presented to the Township Board. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

The Township's approved budgets were adopted at the function level for the General Fund and Special Revenue Funds. The function level is the legal level requiring approval by the Board for amendments; however, for control purposes, all the budgets are maintained at the account level.

The Township does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated.

During the fiscal year ended December 31, 2006, the Township incurred expenditures in a General Fund and Special Revenue Funds, which were in excess of the amount appropriated as follows:

<u>Function/Activity</u>	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund –			
General Government	\$ 715,515	\$ 723,358	\$ 7,843
Recreation and culture	153,700	183,437	29,737
Township Improvement Fund –			
Transfers Out	-	32,000	32,000
Building Inspection Fund –			
Contracted Services	5,950	6,830	880

Deficit Fund Balance –

As of December 31, 2006 the Internal Service Fund (Governmental Activities) of the Township had a deficit unrestricted net assets of \$83,343. The Charter Township has filed a deficit elimination plan with the Department of Treasury.

NOTE 3 – DEPOSITS AND INVESTMENTS:

Authorized Deposits and Investments

The Township's investment policy and Act 20 PA 1943, as amended, authorizes the Township to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Act 20 PA 1943 as amended authorizes the Township to invest surplus funds in bonds, securities and other obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

As of December 31, 2006, the carrying amount of the deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Component Unit	Total
Deposits –				
Petty Cash	\$ 1,188	\$ -	\$ -	\$ 1,188
Deposits with Financial Institutions				
Checking and Savings Accounts	2,211,748	904,256	31,198	3,147,202
Certificates of Deposit	<u>245,400</u>	<u>-</u>	<u>-</u>	<u>245,400</u>
Total Deposits	<u>2,458,336</u>	<u>904,256</u>	<u>31,198</u>	<u>3,393,790</u>
Investments –				
Federal Home Loan	300,000	-	100,000	400,000
Investment Trust Funds	<u>571,064</u>	<u>-</u>	<u>521,324</u>	<u>1,092,388</u>
Total Investments	<u>871,064</u>	<u>-</u>	<u>621,324</u>	<u>1,492,388</u>
Grand Total	<u>\$ 3,329,400</u>	<u>\$ 904,256</u>	<u>\$ 652,522</u>	<u>\$ 4,886,178</u>
Reconciliation To Statement of Net Assets				
Reported as Cash and Cash Equivalents –				
Petty Cash	\$ 1,188	\$ -	\$ -	\$ 1,188
Deposits with Financial Institutions	62,689	904,256	31,198	998,143
Certificates of Deposit	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
Total Cash and Cash Equivalents Reported on Statement of Net Assets	<u>263,877</u>	<u>904,256</u>	<u>31,198</u>	<u>1,199,331</u>
Reported as Investments –				
Deposits with Financial Institutions	2,149,059	-	-	2,149,059
Federal Home Loan	300,000	-	100,000	400,000
Investment Trust Funds	571,064	-	521,324	1,092,388
Certificates of Deposit	<u>45,400</u>	<u>-</u>	<u>-</u>	<u>45,400</u>
	<u>3,065,523</u>	<u>-</u>	<u>621,324</u>	<u>3,686,847</u>
Grand Total Statement of Net Assets	<u>\$ 3,329,400</u>	<u>\$ 904,256</u>	<u>\$ 652,522</u>	<u>\$ 4,886,178</u>

The Township's investment policy primary objectives, in order of priority, are safety, diversification, liquidity and return on investment. The Township Treasurer is responsible for the investment program.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):

Deposits

The money market accounts and investment trust funds have been reported in the financial statements as investments even though the money market and investment trust funds have characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The reason for reporting as investments is that it is the intent of the Township to reinvest the certificates of deposit and not make regular withdrawals from the investment trusts and money market accounts since the funds are part of the Charter Township's pooled investment program.

Custodial Credit Risk - Deposits – is the risk that in the event of a bank failure, the Township's deposit or investments may not be returned.

As of December 31, 2006, the bank balance of the Township's deposits was \$4,774,271, of which \$345,770 was FDIC insured with the balance of \$4,428,501 was exposed to credit risk as it was uninsured and uncollateralized.

Investments

Custodial Credit Risk - Investments – is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments that are in the possession of another side party. As of December 31, 2006, \$442,000 in investment was held in third-party safekeeping in the Township's name.

Interest Rate Risk - Investments – is the risk that in the event that the market value of securities in the Township portfolio will fail due to changes in the market interest increases. The Township attempts to minimize interest rate risk by maintaining liquidity to meet all operating requirements without the need to sell securities prior to maturity and investing operating funds primarily in short term securities and money markets funds.

	<u>Investment Maturities (fair value by years)</u>		
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 to 5</u>
U.S. Agency Securities	\$ 400,000	\$ -	\$ 400,000
Investment Trust Funds	1,092,388	1,092,388	-

Credit Risk - Investments – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws and Township policy limit the types of investments the Township can purchase.

As of December 31, 2006, all of the Township's holdings in investment trust funds of \$1,092,388 received a rating within the two highest classifications from Standard & Poor and Moody rating services.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Concentration of Credit Risk - Investments – is the risk of loss attributed to the magnitude of the Township's investment in a single issuer. The Township's investment policy requires diversification by security type but does not place a fixed percentage limit for any one issuer. As at December 31, 2006, the Township had greater than 5% of its total investment portfolio concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Investments</u>
U.S. Agency Securities	Federal Home Loan Bank	26.8 %
Investment Trust Funds	Chase Bank	35.4
Investment Trust Funds	Comerica Bank	37.8

NOTE 4 - TAXES:

The Township property taxes are levied each December on the assessed valuation of the property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the following February.

Assessed values are established annually by the Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property in the Township for the 2006 levy has a State Equalized Value (SEV) of \$921,570,452 and a taxable value of \$502,765,284.

The millage rates levied by the Township were 2.326 for General Operating, .6740 for Capital Projects Fund, and .6411 for Water Fund (Debt Service).

The County of St. Clair has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

NOTE 5 - RECEIVABLES:

Receivables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Taxes	\$ 1,248,914	\$ 266,893
Accounts and Interest	304,340	352,032
Intergovernmental	<u>84,774</u>	<u>-</u>
	<u>\$ 1,638,028</u>	<u>\$ 618,925</u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 5 – RECEIVABLES – (cont'd):

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds, as well as business funds, also defer revenue recognition in connection with resources that have been received, but not earned or are received in advance of the period they are intended to finance. At the end of the current fiscal year the component of deferred revenue and unearned revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Governmental-Type Activities		
General Fund –		
Property Taxes	\$ -	\$ 1,164,220
Capital Projects Fund –		
Property Taxes	-	337,347
Business-Type Activities		
Water Fund –		
Property Taxes	-	322,313
	<u>\$ -</u>	<u>\$ 1,823,880</u>
Component Units		
Brownfield Redevelopment Authority		
Property Taxes	\$ -	\$ 30,045

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

The composition of interfund balances as of December 31, 2006:

Due To/From Primary Government and Component Unit –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Internal Service Fund	\$ 16,047 (1)
Water Authority	Water Fund	78,893 (2)
Water Authority	Sewer Fund	13,108 (3)
Sewer Authority	Sewer Fund	<u>26,580 (3)</u>
		<u>\$ 134,628</u>

Due to/froms represent amount owed to (1) cover operating costs, (2) to pay for new equipment, and (3) for actual sewer and water flows.

Transfers From/To Other Funds –

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Water Fund	General Fund	\$ 39,286 (2)
Internal Service Fund	General Fund	32,000 (1)
General Fund	Cemetery Perpetual Care	1,438 (1)
Internal Service Fund	Township Improvement Fund	32,000 (1)
Water Fund	Capital Projects Fund	<u>160,009 (3)</u>
		<u>\$ 264,733</u>

Transfers are for (1) operating costs, (2) to subsidize bond payments, and (3) to transfer costs of capitalized equipment purchases.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS – (cont'd):

Transfers From/To Component Units –

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Brownfield Authority	General Fund	\$ 8,620 (2)
Brownfield Authority	Capital Projects Fund	2,493 (2)
Sewer Fund	Sewer and Water Authority	161,314 (1)
Water Fund	Sewer and Water Authority	<u>13,731 (1)</u>
		<u>\$ 186,158</u>

Transfers made for (1) equipment purchases, and for (2) disbursements of taxes collected.

NOTE 7 - INTERFUND ADVANCES:

Interfund advances described as Advances To/From Other Fund, reflect long-term amounts due or owed to a particular fund by another fund of the township. These amounts include current portion of long-term loans. A summary of these balances at December 31, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advance To/From Primary Government		
Sewer Fund	Water Fund	<u>\$ 350,000</u>

Advance is for start-up costs for the Water Authority Fund.

Advance To/From Primary Government and Component Unit

Sewer Fund	Water Authority	<u>\$ 90,318</u>
------------	-----------------	------------------

Advance is for equipment purchases.

NOTE 8 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended December 31, 2006 was as follows:

	<u>Jan. 1, 2006</u>		<u>Deletions/</u>	<u>Dec. 31, 2006</u>
	<u>Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 124,442	\$ -	\$ -	\$ 124,442
Capital assets, being depreciated:				
Land improvements	2,517,688	31,132	(8,700)	2,540,120
Buildings and improvements	963,631	131,290	8,700	1,103,621
Machinery and equipment	<u>631,108</u>	<u>111,101</u>	<u>(25,570)</u>	<u>716,639</u>
Total capital assets being depreciated	<u>4,112,427</u>	<u>273,523</u>	<u>(25,570)</u>	<u>4,360,380</u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 - CAPITAL ASSETS – (cont'd):

	Jan. 1, 2006 Balance	Additions	Deletions/ Adjustments	Dec. 31, 2006 Balance
Less accumulated depreciation for:				
Land improvements	\$ 927,450	\$ 119,900	\$ -	\$ 1,047,350
Buildings and improvements	223,653	19,531	-	243,184
Machinery and equipment	406,431	37,604	(25,570)	418,465
Total accumulated depreciation	<u>1,557,534</u>	<u>177,035</u>	<u>(25,570)</u>	<u>1,708,999</u>
Total capital assets being depreciated, net	<u>2,554,893</u>	<u>96,488</u>	<u>-</u>	<u>2,651,381</u>
Governmental activities capital assets, net	<u>\$ 2,679,335</u>	<u>\$ 96,488</u>	<u>\$ -</u>	<u>\$ 2,775,823</u>
Business Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 72,530	\$ -	\$ -	\$ 72,530
Construction in progress	-	163,685	-	163,685
	<u>72,350</u>	<u>163,685</u>	<u>-</u>	<u>236,215</u>
Capital assets, being depreciated:				
Buildings and improvements	7,992,885	-	-	7,992,885
Utility systems	12,141,517	13,731	-	12,155,248
Equipment	699,891	161,314	-	861,205
Total capital assets being depreciated	20,834,293	175,045	-	21,009,338
Less accumulated depreciation	(7,329,085)	(410,406)	-	(7,739,491)
Total capital assets being depreciated, net	<u>13,505,208</u>	<u>(235,361)</u>	<u>-</u>	<u>13,269,847</u>
Business activities capital assets, net	<u>\$13,577,738</u>	<u>\$ (71,676)</u>	<u>\$ -</u>	<u>\$ 13,506,062</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 27,754
Recreation and Culture	<u>124,306</u>
Total depreciation expense-governmental activities	<u>\$ 152,060</u>
Business-type activities:	
Water and Sewer Operation	<u>\$ 410,406</u>

In addition, there was depreciation of \$24,975 in the Internal Service Fund (Department of Public Works).

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 9 - LONG-TERM DEBT:

The following is a summary of changes in long-term liabilities (including current portion) of the Primary Government for the year ended December 31, 2006:

	Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006	One Year
Governmental Activities:					
Accrued vacation and sick leave	\$ 110,119	\$ 13,604	\$ -	\$ 123,723	\$ -
Business-type Activities:					
Water Fund –					
Water Supply System –					
Contract Payable –					
1999 Department of					
Environmental Quality Bonds	4,541,172	-	251,156	4,290,016	257,944
Accrued vacation and sick leave	9,425	1,494	-	10,919	-
	<u>4,550,597</u>	<u>1,494</u>	<u>251,156</u>	<u>4,300,935</u>	<u>257,944</u>
Total Primary Government	<u>\$ 4,660,716</u>	<u>\$ 15,096</u>	<u>\$ 251,156</u>	<u>\$ 4,424,658</u>	<u>\$ 257,944</u>

Significant details regarding outstanding long-term liabilities (including current portions) are presented as follows:

Water Supply System 1999 Department of Environmental Quality Bonds:

In order to finance the cost of constructing a new Water Filtration Plant, the Charter Township of East China along with the Charter Township of China through the St. Clair County Department of Public Works have participated in the Drinking Water Revolving Fund through which Department of Environmental Quality Bonds have been sold in the amount of \$7,500,000 (Issue A) and \$925,000 (Issue B).

The amount is apportioned between the Charter Township of East China and China in the ratio of 67.88% and 32.12%, respectively.

The Townships are required to make payments to the St Clair County DPW to meet debt service requirements. It is the intention of the Charter Township of East China to pay the obligation for Issue A to the County from property taxes and Issue B from the water fund (subsidized by the general fund). Upon final payment of the respective bond issues ownership of 67.88% of the system will revert to the Township.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 9 - LONG-TERM DEBT - (cont'd):

The balance of the Issue A and Issue B bonds payable at December 31, 2006, which represent the 67.88% apportioned to the Charter Township of East China is \$3,818,250 and \$471,766, respectively. The annual requirements to pay the principal and interest on the Issue A and Issue B Department of Environment Quality Bonds are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2007	2.50 %	\$ 257,944	\$ 104,026	\$ 361,970
2008	2.50	268,126	97,451	365,577
2009	2.50	271,520	90,705	362,225
2010	2.50	278,308	83,832	362,140
2011	2.50	285,096	76,789	361,885
2012-2016	2.50	1,544,270	271,308	1,815,578
2017-2020	2.50	<u>1,384,752</u>	<u>70,340</u>	<u>1,455,092</u>
		<u>\$ 4,290,016</u>	<u>\$ 794,451</u>	<u>\$ 5,084,467</u>

Accrued Vacation and Sick Pay -

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The Governmental Fund portion of \$123,723 as well as the Enterprise Fund portion of \$10,919, has been recorded in the government-wide financial statements as a long-term liability.

\$ 134,642

In addition, \$73,259 was recorded in the Component Unit St. Clair River Sewer and Water Authority Fund.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 - EMPLOYEE PENSION PLAN:

Plan Description -

The Charter Township of East China participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Charter Township Board requires members to contribute 4.7% of the annual compensation. The Township is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the Township are established and may be amended by the Township, depending on the MERS contribution program adopted by the Township.

Annual Pension Costs -

For fiscal year 2006, the Charter Township's annual pension cost of \$112,260 for MERS was equal to the Township's required and actual contributions. The required contribution was determined as part of the December 31, 2003, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% (annually) after retirement. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the fund earns the expected rate of return (8%) and includes as adjustment to reflect market value.

Three-Year Trend Information

<u>Fiscal Year Ending December 31,</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
2003	\$ 71,888	100 %	-
2004	88,374	100	-
2005	92,656	100	-

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 - EMPLOYEE PENSION PLAN - (cont'd):

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Un-funded (Over-funded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2003	\$ 3,592,555	\$ 4,191,713	\$ 599,158	86.00 %	\$ 730,232	82.00 %
2004	3,797,803	4,681,740	883,937	81.00	725,516	122.00
2005	3,962,839	5,040,166	1,077,327	79.00	810,661	133.00

NOTE 11 - POST RETIREMENT BENEFITS:

In addition to the pension benefits described in Note 10, the Charter Township of East China provides 50% of the health insurance premium for any employee that retires with a minimum of 25 years of continued employment with the Township. Expenditures for post-retirement health care benefits are recognized as a pay-as-you-go basis and amounted to \$12,541 for two employees for 2006.

NOTE 12 - RESTRICTED ASSETS:

The restricted assets of \$333,351 in the Water Fund are for capital improvements/debt retirement.

NOTE 13 - PRINCIPAL TAXPAYER AND UTILITY CUSTOMER:

The Detroit Edison Plant, located within the Township, provides a significant portion of both property tax and utility revenues. Such revenues and the approximate percentage of the total individual revenues for the year ended December 31, 2006 are summarized below:

	Revenues Provided	Approximate Percentage
Property taxes	\$ 1,179,008	65.65 %
Wastewater treatment service	180,284	29.00
Water purchases	97,336	14.35

NOTE 14 - CONTINGENT LIABILITIES:

Primary Government –

One of the Township's major taxpayers, the Detroit Edison Company, is appealing its tax assessments for the 2002 through 2006 tax assessments. The taxpayer has paid the contested amount. Should the taxpayer prevail, the Township would be required to refund approximately \$2,560,000 plus interest for 2002 through 2005 tax levy. In addition, the Township would be required to refund approximately \$700,000 for 2005 tax levy, which is recorded as revenue by the Township in 2006. The Township has designated a portion of fund balance for the contested amounts (See Note 15). The Township intends to vigorously defend the original assessments and believes they will prevail. Due to the matter of the appeal, it is impossible to estimate any potential liability, if any.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 15 - RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:

Reserved Fund Balance/Retained Earnings –

Fund Balance/Retained Earnings has been reserved/designated in the various fund types to indicate that a portion of the Fund Balance/Retained Earnings is not available but reserved for specific purposes:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
Reserved –		
Fund Balance –		
General	Prepaid Expenditures	\$ 87,044
Capital Projects	Prepaid Expenditures	11,256
	Capital Projects	373,358
Cemetery Perpetual Care	Perpetual Care	<u>45,770</u>
		<u>\$ 517,428</u>
Retained Earnings –		
Water Fund	Debt Retirement	<u>\$ 11,038</u>
Designated –		
Fund Balance –		
General	Tax Appeal	\$ 61,125
Township Improvement	Tax Appeal	60,000
Capital Projects	Tax Appeal	<u>270,155</u>
		<u>\$ 391,280</u>

NOTE 16 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, Injuries to employees, medical benefits provided to employees, etc. The Township has purchased insurance coverage for each of these types of losses; however, the Township would be responsible should the limit of coverage's be exceeded. The amount of the settlement claims for the last three years has not exceeded insurance coverage.

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF EAST CHINA**St. Clair County, Michigan****GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Taxes	\$ 1,132,315	\$ 1,132,315	\$ 1,138,925	\$ 6,610
Licenses and permits	19,200	19,200	24,356	5,156
Intergovernmental				
State	255,880	255,880	253,178	(2,702)
Local	13,900	13,900	32,530	18,630
Charges for services	31,345	31,345	37,640	6,295
Interest and rent	27,600	27,600	48,009	20,409
Other revenue	6,875	6,875	4,667	(2,208)
Total revenues	<u>1,487,115</u>	<u>1,487,115</u>	<u>1,539,305</u>	<u>52,190</u>
Expenditures:				
General government	565,515	715,515	723,358	(7,843)
Public safety	331,325	331,325	329,068	2,257
Public works	233,625	233,625	227,495	6,130
Health and welfare	105	105	-	105
Recreation and culture	153,700	153,700	183,437	(29,737)
Other	130,340	130,340	27,779	102,561
Total expenditures	<u>1,414,610</u>	<u>1,564,610</u>	<u>1,491,137</u>	<u>73,473</u>
Excess of revenues over (under) expenditures	<u>72,505</u>	<u>(77,495)</u>	<u>48,168</u>	<u>125,663</u>
Other Financing Sources (Uses):				
Transfers in	1,200	1,200	1,438	238
Transfers out	(79,915)	(79,915)	(79,906)	9
Total other financing sources (uses)	<u>(78,715)</u>	<u>(78,715)</u>	<u>(78,468)</u>	<u>247</u>
Excess of revenues over (under) expenditures and other uses	<u>(6,210)</u>	<u>(156,210)</u>	<u>(30,300)</u>	<u>125,910</u>
Fund Balance at beginning of year	<u>525,897</u>	<u>525,897</u>	<u>525,897</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 519,687</u>	<u>\$ 369,687</u>	<u>\$ 495,597</u>	<u>\$ 125,910</u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

TOWNSHIP IMPROVEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Interest on investments	\$ 19,000	\$ 19,000	\$ 36,760	\$ 17,760
Expenditures:				
General Government	280,000	280,000	116,809	163,191
Excess of revenues over (under) expenditures	(261,000)	(261,000)	(80,049)	180,951
Other Financing Uses:				
Transfers Out	-	-	(32,000)	(32,000)
Excess of revenues over (under) expenditures and other uses	(261,000)	(261,000)	(112,049)	148,951
Fund Balance at beginning of year	788,066	788,066	788,066	-
Fund Balance at end of year	<u>\$ 527,066</u>	<u>\$ 527,066</u>	<u>\$ 676,017</u>	<u>\$ 148,951</u>

SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	Special Revenue Fund	Permanent Fund	
	Building Inspections	Cemetery Perpetual	Total
ASSETS			
Cash and cash equivalents	\$ 2,430	\$ 370	\$ 2,800
Investments	57,437	45,400	102,837
Receivables -			
Other	695	-	695
	<u>695</u>	<u>-</u>	<u>695</u>
Total Assets	<u>\$ 60,562</u>	<u>\$ 45,770</u>	<u>\$ 106,332</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 2,524	\$ -	\$ 2,524
Accrued liabilities	8,146	-	8,146
Due to employees	16,236	-	16,236
Due to individuals	17,050	-	17,050
Total Liabilities	<u>43,956</u>	<u>-</u>	<u>43,956</u>
Fund Balance:			
Reserved -			
Perpetual Care	-	45,770	45,770
Unreserved -			
Undesignated	16,606	-	16,606
Total Fund Balance	<u>16,606</u>	<u>45,770</u>	<u>62,376</u>
Total Liabilities and Fund Balance	<u>\$ 60,562</u>	<u>\$ 45,770</u>	<u>\$ 106,332</u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Special Revenue Fund	Permanent Fund	
	Building Inspections	Cemetery Perpetual	Total
Revenues:			
Permits	\$ 76,217	\$ -	\$ 76,217
Interest	2,678	1,447	4,125
Other	25	625	650
Total Revenues	<u>78,920</u>	<u>2,072</u>	<u>80,992</u>
Expenditures:			
Public Safety -			
Salaries and fringes	72,375	-	72,375
Contracted services	6,830	-	6,830
Total Expenditures	<u>79,205</u>	<u>-</u>	<u>79,205</u>
Excess of revenues over (under) expenditures	(285)	2,072	1,787
Other Financing Uses:			
Transfers out	<u>-</u>	<u>(1,438)</u>	<u>(1,438)</u>
Excess of revenues over (under) expenditures and other uses	(285)	634	349
Fund Balances at beginning of year	<u>16,891</u>	<u>45,136</u>	<u>62,027</u>
Fund Balances at end of year	<u><u>\$ 16,606</u></u>	<u><u>\$ 45,770</u></u>	<u><u>\$ 62,376</u></u>

CHARTER TOWNSHIP OF EAST CHINA**St. Clair County, Michigan**

**BUILDING INSPECTION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 85,900	\$ 85,900	\$ 76,217	\$(9,683)
Interest	1,600	1,600	2,678	1,078
Other	30	30	25	(5)
Total Revenues	<u>87,530</u>	<u>87,530</u>	<u>78,920</u>	<u>(8,610)</u>
Expenditures:				
Public Safety				
Salaries and fringe benefits	76,635	76,635	72,375	4,260
Contracted service	<u>5,950</u>	<u>5,950</u>	<u>6,830</u>	<u>(880)</u>
Total Expenditures	<u>82,585</u>	<u>82,585</u>	<u>79,205</u>	<u>3,380</u>
Excess of revenues over (under) expenditures	4,945	4,945	(285)	(5,230)
Fund Balance at beginning of year	<u>16,891</u>	<u>16,891</u>	<u>16,891</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 21,836</u>	<u>\$ 21,836</u>	<u>\$ 16,606</u>	<u>\$(5,230)</u>

FIDUCIARY FUND

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

CURRENT TAX FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Assets:				
Cash	\$ 916,389	\$ 14,463,053	\$ 14,475,186	\$ 904,256
Accounts receivable	<u>15,917</u>	<u>24,010</u>	<u>15,917</u>	<u>24,010</u>
Total Assets	<u><u>\$ 932,306</u></u>	<u><u>\$ 14,487,063</u></u>	<u><u>\$ 14,491,103</u></u>	<u><u>\$ 928,266</u></u>
Liabilities:				
Due to other funds	\$ -	\$ 1,938,411	\$ 1,938,411	\$ -
Due to other governmental units - Undistributed taxes	<u>932,306</u>	<u>12,548,652</u>	<u>12,552,692</u>	<u>928,266</u>
Total Liabilities	<u><u>\$ 932,306</u></u>	<u><u>\$ 14,487,063</u></u>	<u><u>\$ 14,491,103</u></u>	<u><u>\$ 928,266</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Supervisor and Members of
The Township Board
Charter Township of East China
St. Clair County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Charter Township of East China as of and for the year ended December 31, 2006, which collectively comprise the Charter Township of East China's basic financial statements and have issued our report thereon dated June 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charter Township of East China's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Township of East China's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Charter Township of East China's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles.

Management routinely prepares internal financial information to assess operations and the financial position of the Township on an ongoing basis. Although the internal financial information is sufficient to operate the Township, it is not presented in accordance with generally accepted accounting principles. The Township contracts with us, the auditors, to propose journal entries for

conversion to the modified accrual basis of accounting and for the GASB 34 presentation, along with drafting the financial statements, including all necessary notes, in accordance with generally accepted accounting principles.

This is considered to be a control deficiency since errors could occur in the preparation of the financial statements that would result in material deviations from generally accepted accounting principles and the Township would not be in a position to detect them.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter Township of East China's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above to be a material weakness.

We noted certain matters that we reported to management of Charter Township of East China in a separate letter dated June 11, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charter Township of East China's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

This report is intended solely for the information and use of management, the Township Board, others with the Charter Township of East China, and the Michigan Department of Treasury and is not intended to be and should be used by anyone other than these specified parties.



Certified Public Accountants

June 11, 2007



MANAGEMENT LETTER

To the Supervisor and Members of
the Township Board
Charter Township of East China
St. Clair County, Michigan

We have recently completed our audit of the basic financial statements of the Charter Township of East China as of and for the year ended December 31, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the Township's recordkeeping system or compliance with laws and regulations. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in our ***Report on Internal Accounting Controls***, these weaknesses were not considered significant deficiencies in relation to the basic financial statements of the Charter Township of East China.

Access to the General Ledger and journal entries should be limited to the Clerk's office.

Based on discussions with management it is our understanding that the Treasurer's office has access to the general ledger and the ability to post journal entries. Since the Treasurer's office deposits and maintains cash and investments they should not have the ability to post to the general ledger, other than cash receipting, and should not have the access to post journal entries. We recommend that the Township review who has access to each module and limit the access to the general ledger and journal entries.

Back-up of the computer system data should be maintained off-site.

Based on discussions with management it is our understanding that the Township backs-up the data files each night with the file maintained in the Township vault. In the event of a fire or other natural disaster the back-up could be damaged or lost. To increase security, we recommend that the Township maintain back-up files off-site at least monthly but preferably on a weekly basis.

Controls over fuel at the DPW location should be improved.

The Township maintains fuel for use of the Township equipment. However, employees are not required to document when fuel is used, the vehicle or equipment that is being fuel, the mileage and date, etc. We recommend that procedures be adopted requiring this type of information and that perpetual inventory records of the fuel be maintained. A physical inventory should be taken at the end of each month and compared to the perpetual inventory records.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2006 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of the management, the Township Board, others with the Charter Township of East China, Michigan, and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

Stewart, Beauvoir Whipple

June 11, 2007